

“THE PRIVATE STUDENT LOAN TRANSPARENCY AND IMPROVEMENT ACT”

The legislation marked up by Senate Banking Committee Chairman Senator Dodd intends to make higher education more accessible and affordable while enhancing consumer protections for student borrowers who take out private educational loans. Specifically, the bill improves loan disclosures and market transparency, prevents unfair and deceptive industry practices, eliminate conflicts of interests, and promotes greater financial literacy for college students.

Making College More Accessible and Affordable

The legislation:

- requires lenders to provide student borrowers who have been approved for a loan with a 30-day window to continue to shop for the best loan product and rate;
- provides students with a 3-day “cooling off” period after consummation of their loan;
- requires lenders to inform loan applicants of their eligibility for lower-cost federal loans;
- authorizes financial regulators to offer financial institutions incentives under the Community Reinvestment Act (CRA) for making low-cost loans to low-income student borrowers.

Eliminating Conflicts of Interest and Preventing Unfair Lending Practices

The legislation:

- prohibits revenue-sharing and loan co-branding arrangements between lenders and schools;
- prohibits lenders from offering gifts to schools or school employees in exchange for preferential consideration of their private loan products or services;
- prohibits advisory board members from receiving anything of value from a private educational lender other than reimbursement for reasonable expenses;
- prohibits lenders from charging prepayment penalties on private student loans;
- apply Truth in Lending Act (TILA) consumer protections to all private student loans.

Improved Disclosures to Student Borrowers

The legislation:

- requires lenders to provide clear and concise disclosure regarding the APR, rate, fees, terms and conditions of their private educational loans to students borrowers in all solicitation, approval and loan consummation material;
- requires lenders to provide student borrowers with comprehensive disclosures upon approval of a loan, including the loan’s interest rate, whether the loan is variable or fixed, all fees and finance charges and the borrower’s monthly payment;

Preventing Abusive Lending Practices

The legislation:

- requires the General Accounting Office (GAO) to conduct a comprehensive study, and report to Congress, on the extent to which the use of nonindividual factors, such as school graduation rate, default rate, or accreditation, used in the underwriting criteria to determine the pricing of private educational loans may have a disparate impact on the types of loan products made available to certain types of colleges and the pricing of loans made to students based on race, gender, and income level;
- requires lenders to disclose to borrowers whether they currently use such nonindividual factors in the underwriting criteria used to determine the pricing of the loan offered to a student borrower.

Promoting Financial Literacy

The legislation:

- requires federal agencies to develop initiatives aimed at improving the financial literacy of college students, specifically focused on growing awareness of the cost, obligations, and rights associated with educational loans and other college debts.